

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
PENSION & HEALTH BENEFITS COMMITTEE  
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 15, 2016  
9:02 A.M.

JAMES F. PETERS, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Priya Mathur, Chairperson

Mr. Michael Bilbrey, Vice Chairperson

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Mr. Ralph Cobb

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Theresa Taylor

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. J.J. Jelincic

Mr. Bill Slaton

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Dr. Kathy Donneson, Chief, Health Plan Administration  
Division

Ms. Victoria Eberle, Assistant Chief, Health Plan  
Administration Division

A P P E A R A N C E S   C O N T I N U E D

STAFF:

Ms. Jennifer Jimenez, Committee Secretary

Mr. Anthony Suine, Chief, Benefit Services Division

ALSO PRESENT:

Mr. Tim Behrens, California State Retirees

Mr. David Bilby, City of Chula Vista

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1 P R O C E E D I N G S

2 CHAIRPERSON MATHUR: Good morning, everyone.  
3 We're going to convene the Pension & Health Benefits  
4 Committee. First order of business is roll call.

5 COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

6 CHAIRPERSON MATHUR: Good morning.

7 COMMITTEE SECRETARY JIMENEZ: Michael Bilbrey?

8 VICE CHAIRPERSON BILBREY: Good morning.

9 COMMITTEE SECRETARY JIMENEZ: Steve Juarez for  
10 John Chiang?

11 ACTING COMMITTEE MEMBER JUAREZ: Here.

12 COMMITTEE SECRETARY JIMENEZ: Rob Feckner?

13 COMMITTEE MEMBER FECKNER: Good morning.

14 COMMITTEE SECRETARY JIMENEZ: Ralph Cobb for  
15 Richard Gillihan?

16 ACTING COMMITTEE MEMBER COBB: Here.

17 COMMITTEE SECRETARY JIMENEZ: Dana Hollinger?

18 COMMITTEE MEMBER HOLLINGER: Here.

19 COMMITTEE SECRETARY JIMENEZ: Henry Jones?

20 Theresa Taylor?

21 COMMITTEE MEMBER TAYLOR: Here.

22 COMMITTEE SECRETARY JIMENEZ: Alan Lofaso for  
23 Betty Yee?

24 ACTING COMMITTEE MEMBER LOFASO: Here.

25 CHAIRPERSON MATHUR: And please also note for the

1 record that J.J. Jelincic has joined us.

2 All right. The next order of business is the  
3 Executive Reports. Now, if you can give it, Mr. McKeever.

4 DEPUTY EXECUTIVE OFFICER MCKEEVER: Good morning,  
5 Madam Chair, members of the Committee. Doug McKeever,  
6 CalPERS staff. I will power through this and be brief.

7 A couple of comments that I want to make, one of  
8 which echoes what Mr. Eliopoulos spoke of yesterday in the  
9 Investment Committee about the recent election results.  
10 And I just want to highlight for you the impacts on the  
11 Pension and Health care side, and that in January at the  
12 off-site, we will have all 3 of the federal  
13 representatives attending that off-site, so we will go  
14 through a thorough vetting of what the potential impacts  
15 are. And as Ted mentioned, it's too early to tell exactly  
16 what's going to happen, but it is something that's on our  
17 radar screen and we do need to pay attention to.

18 I want to bring your attention. I brought this  
19 up about 4 to 6 months ago. The League of Cities is now  
20 offering an alternative health benefits program for its  
21 members. And specifically, they are looking at CalPERS  
22 employers and reaching out to them and letting them know  
23 about their optional benefit plan that is now available  
24 through the League. So I'm calling this out as -- for  
25 your awareness that we have been made aware of this. We

1 don't know, at this point in time, whether or not  
2 employers are taking it seriously, but we're going to be  
3 monitoring to make sure that if there are employers that  
4 are seeking information from the League, that they also  
5 get information from CalPERS, so that they can weigh both  
6 sides before they make a decision to leave this program.

7 I want to mention that in January, at the  
8 off-site, in addition to the federal representatives  
9 reporting to us, we are going to have a presentation on  
10 the value based insurance design approaches and concepts.  
11 We'll have presenters here from back east who are actually  
12 implementing these perspectives now. And then staff will  
13 provide the Board with some approaches for your  
14 consideration moving into the 2018 plan year.

15 I want to also let you know that we briefed the  
16 stakeholders last week on this approach, not on the  
17 approach itself, but just giving them a heads up that this  
18 information is going to be forthcoming and that we are  
19 going to be seeking their active engagement as we moved  
20 forward.

21 A couple more items. One is, you know, open  
22 enrollment has closed, as traditionally we provide the  
23 Board with a full update in February. With all of the  
24 transactions that took place both in and out of all of the  
25 health plans. And so just for your awareness, that will

1 be a full report that we provide to you in February of  
2 next year.

3 As a reminder, I mentioned last month that  
4 CalPERS submitted its first health annual report to the  
5 legislature. That was report was presented on November  
6 the 1st. You all received copies, along with the website  
7 address. It'd been posted to our website. So anybody  
8 who's interested in looking that report can go to the  
9 CalPERS website and gain access to that report there.

10 And then finally, for the Committee and members,  
11 Madam Chair and myself will be attending a meeting down in  
12 Oakland with the Alameda County Health Care Task Force.  
13 This is a task force that has been formed with 20 plus  
14 employers and labor representatives in the greater Bay  
15 Area, looking at alternatives to health benefits. And the  
16 Chair and I will be going down speaking to this group on  
17 the 29th. They're seeking our input and feedback on the  
18 recommended approaches that have been presented to them,  
19 and then we will also share our perspectives on where  
20 CalPERS is headed, so that they get all of the information  
21 necessary in their deliberations.

22 Madam Chair, that concludes my comments.

23 CHAIRPERSON MATHUR: Thank you. And I believe  
24 the Vice Chair is also going to join us for that meeting.

25 Thank you very much. Any questions from the



1 Committee?

2 Mr. Jelincic.

3 BOARD MEMBER JELINCIC: Doug, on that meeting in  
4 Oakland, is Tom Moore going to be there, do you know?

5 DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jelincic,  
6 that is the meeting that both Sally and Tom are  
7 coordinating.

8 BOARD MEMBER JELINCIC: Oh. So hopefully he'll  
9 be there.

10 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah.

11 BOARD MEMBER JELINCIC: Thank you.

12 CHAIRPERSON MATHUR: Just one question. Do we  
13 know what the actuarial value of the alternative health  
14 benefits plan offered by the League of Cities is, and how  
15 that compares to our own?

16 DEPUTY EXECUTIVE OFFICER McKEEVER: Not yet. No,  
17 we've -- they've been very cautious in granting us access  
18 to their information. So we're going to be reaching out  
19 to them to get as much as we can relative to their benefit  
20 designs. I will tell you that they're contracting with  
21 more than one vendor for a variety of benefits.

22 If you recall, several years ago, we looked into  
23 an exchange-based product for the Medicare members of  
24 CalPERS. My understanding is that what the League has set  
25 up is an exchange-based product. So employers would be

1 contracting with an exchange. I think it's run by Towers  
2 Watson. And that group then would be responsible for  
3 providing the benefits, and all of the necessary  
4 corresponding activities that would go along with that.

5 CHAIRPERSON MATHUR: Okay. Thank you.

6 All right. We'll move on to Agenda Item number  
7 3, approval of the September 2016 minutes.

8 VICE CHAIRPERSON BILBREY: Move approval.

9 COMMITTEE MEMBER FECKNER: Second.

10 CHAIRPERSON MATHUR: Motion made by Bilbrey,  
11 seconded by Feckner.

12 Any discussion on the motion?

13 Seeing none.

14 All those in favor say aye?

15 (Ayes.)

16 CHAIRPERSON MATHUR: All opposed? Motion passes.

17 Agenda Item 4 is the information consent items.  
18 I have had no requests to pull anything off.

19 So we'll move on to Agenda Item number 5, State  
20 Legislative Proposal: Policy and Technical Amendments.

21 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good  
22 morning, Madam Chair, members of the Committee. Mary Anne  
23 Ashley, CalPERS team member.

24 I will be presenting Agenda Item 5, which is an  
25 action item. CalPERS benefit program areas are seeking

1 Committee approval to pursue legislation to make minor  
2 policy and technical changes to sections of the Government  
3 Code, affecting the benefit programs administered by  
4 CalPERS. The analysis and background information of each  
5 proposal is included in your Board materials for your  
6 reference. I would like to please begin with the proposed  
7 changes that are clarifying and technical in nature, and  
8 would be included in the annual housekeeping bill.

9 And these proposed changes are to clarify how  
10 CalPERS calculates final compensation for members with  
11 multiple employers, clarify eligible conditions for  
12 changing an optional sediment, make additional changes to  
13 provisions affecting future optional settlements, remove  
14 non-operational conditions on employment after disability  
15 retirement, clarify CalPERS authority to hold  
16 pre-retirement information seminars for all members,  
17 require employers to report classic member special  
18 compensation separate from pay rate, clarify the  
19 definitions for disability and incapacity for performance  
20 of duty, provide misclassified school members an  
21 opportunity to remain in CalPERS, and to ensure new  
22 members in the State's second tier plan are eligible for  
23 disability benefits.

24 These are proposed amendments to the PERL, as I  
25 mentioned, that would be included in the housekeeping bill

1 in order to help ensure the continued efficient  
2 administration and good governance of CalPERS.

3 So before we move on to the minor policy bill,  
4 I'd be happy to answer any questions, as would Mr. Suine.

5 CHAIRPERSON MATHUR: Any questions from the  
6 Committee?

7 Yes, Mr. Juarez.

8 ACTING COMMITTEE MEMBER JUAREZ: Yeah. Mary  
9 Anne, I just had a question about whether or not you've  
10 had a chance to share with the Committee staff the  
11 proposed amendments, and that they do agree that it's  
12 primarily just technical clean up that won't necessarily  
13 agitate anybody out there?

14 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes,  
15 we have had that opportunity and that is correct.

16 ACTING COMMITTEE MEMBER JUAREZ: Excellent.

17 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Thank  
18 you.

19 CHAIRPERSON MATHUR: Thank you.

20 Mr. Jelincic.

21 BOARD MEMBER JELINCIC: I'm not sure if this the  
22 appropriate time to ask a question, but the change in  
23 retirement settlement options, was that included in the  
24 technical bill that -- or is that something we're going to  
25 talk about later?

1           BENEFIT SERVICES DIVISION CHIEF SUINE: The  
2 changes to the optional settlement, were you -- good  
3 morning, Madam Chair.

4           CHAIRPERSON MATHUR: Good morning, Mr. Suine.

5           (Laughter.)

6           BENEFIT SERVICES DIVISION CHIEF SUINE: Anthony  
7 Suine, CalPERS team member, members of the Committee.

8           Were you looking for some clarification on that,  
9 Mr. Jelincic, or --

10          BOARD MEMBER JELINCIC: Well, you said, you know,  
11 technical changes. And then I heard, maybe incorrectly,  
12 that you were going to come back and deal with some of the  
13 substantial ones. And I'm just wondering whether this is  
14 a more substantial one that you were going to deal with  
15 or -- and you're saying, no, it's part of the technical.

16          BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah,  
17 it's part of the technical.

18          BOARD MEMBER JELINCIC: When I -- when I read  
19 this, it's -- and obviously, it's -- the devil is in the  
20 detail. But right now, if you choose option 1, that's  
21 irrevocable. And what it says is that we're proposing  
22 language to make it clear that options 2, 3, and 4 are  
23 also irrevocable, which would suggest that, you know, 2, 3  
24 and 4 are always irrevocable. And so it may be just the  
25 wording of this or the intent, and so I was wondering if

1 you could clarify.

2 BENEFIT SERVICES DIVISION CHIEF SUINE: The main  
3 intent of this legislative change is to just clarify some  
4 of those inherent applications of the law, like it is  
5 irrevocable. When you do have a life event, a qualifying  
6 life event, it allows you to invoke these option changes.  
7 And so the real crux of this actual change is when there's  
8 an annulment. And the language isn't really clear, it  
9 treats an annulment like a divorce, but the paperwork is  
10 not the same for an annulment as it is for a divorce. So  
11 you don't have a court order ceasing the marriage. You  
12 need annulment papers.

13 So we were just trying to clarify the need for  
14 that type of paperwork when it's an annulment versus a  
15 divorce. And then just stress that it's -- these changes  
16 are irrevocable.

17 BOARD MEMBER JELINCIC: So -- okay. But the  
18 language in the write-up says, "Staff recommends  
19 clarifying that an eligible member's election to change  
20 his or her optional benefits due to a qualifying event is  
21 irrevocable."

22 BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.  
23 So in some places, it clearly states it's irrevocable in  
24 other places it's not as clear. So we just want to make  
25 sure that when you make these option changes, based on the

1 life events, that they're all irrevocable, once you elect  
2 into that option change.

3 BOARD MEMBER JELINCIC: And if a second life  
4 event happens?

5 BENEFIT SERVICES DIVISION CHIEF SUINE: You could  
6 make another change.

7 BOARD MEMBER JELINCIC: So it's not irrevocable.

8 BENEFIT SERVICES DIVISION CHIEF SUINE: It's  
9 irrevocable unless you have the qualifying event.

10 BOARD MEMBER JELINCIC: Okay. And then on the  
11 disability, you know, we're moving to the industry best  
12 practice and a year. But currently, we require 6 months,  
13 a year, 2 years or some other period of duration. And one  
14 of the advantages that creates is at least the option to  
15 create a tickler to say we ought to go back and relook at  
16 this.

17 If we simply are getting a, well, it's more than  
18 a year, then there's no real basis to establish a tickler.  
19 And I'm wondering how you propose to deal with that?

20 BENEFIT SERVICES DIVISION CHIEF SUINE: So this  
21 is when we make the initial determination for a  
22 disability. So it's the direction we give to the treating  
23 physician, or the specialist, or our independent medical  
24 examiner is if this person is substantially incapacitated  
25 for a specific period of time, then they can qualify for

1 the disability retirement. We have not had a statute  
2 codifying how long that duration is. We've kind of used  
3 the 6- to 12-month area as a general guideline. But when  
4 we said we needed to codify, then we looked at the best  
5 practices, what our peers are doing, and that's where we  
6 came up with codifying the 12-month.

7 So if you have this substan -- if are you going  
8 to be substantially incapacitated for 12 months or  
9 greater, then you could be approved for the disability  
10 retirement, then we internally have some guidelines of  
11 depending on the type of disability, we would set ticklers  
12 about when to reevaluate that member.

13 BOARD MEMBER JELINCIC: Okay. Thank you.

14 CHAIRPERSON MATHUR: Thank you.

15 Mr. Jones.

16 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam  
17 Chair.

18 Yeah. My question goes to the misclassified  
19 school employees area. And I understand CalSTRS, back in  
20 2015, sent out a letter to all the potential affected  
21 employees. Have we done the same on the CalPERS side?

22 BENEFIT SERVICES DIVISION CHIEF SUINE: We have  
23 not yet, until we get this infor -- once we -- once we  
24 clarify this -- once we get the bill passed, then we'll be  
25 able to reach out to them to provide them the one-time



1 election to remain in CalPERS.

2 COMMITTEE MEMBER JONES: Do we have an idea of  
3 how many employees are affected?

4 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah,  
5 it's about 1,500 to 2,000, we believe.

6 COMMITTEE MEMBER JONES: Okay. Thank you.

7 CHAIRPERSON MATHUR: So this is an action item.  
8 Is there --

9 COMMITTEE MEMBER TAYLOR: Move approval.

10 CHAIRPERSON MATHUR: Motion made by Ms. Taylor.  
11 Is there a second?

12 COMMITTEE MEMBER JONES: Second.

13 CHAIRPERSON MATHUR: Seconded by Mr. Jones.

14 Any further discussion -- any discussion on the  
15 motion?

16 Seeing none -- oh, Mr. Cobb, can you hit your  
17 button.

18 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,  
19 there's one more item that we need to speak to --

20 CHAIRPERSON MATHUR: Oh, I'm sorry.

21 DEPUTY EXECUTIVE OFFICER McKEEVER: -- on a  
22 policy bill before the Committee takes action.

23 CHAIRPERSON MATHUR: Thank you. Thank you.  
24 Okay.

25 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: But

1 that's okay for the technical --

2 CHAIRPERSON MATHUR: Okay. Great.

3 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Okay.

4 So CalPERS benefit areas are also seeking Committee  
5 approval to pursue stand-alone legislation to provide that  
6 non-vested CalPERS members may have a specified break in  
7 service between their CalPERS covered employment and  
8 CalSTRS covered employment to be eligible to remain in  
9 CalPERS, provided that all other eligibility requirements  
10 in current law are met.

11 So currently, subject to specified conditions, a  
12 vested CalPERS member who is appointed to a position that  
13 would otherwise require participation in CalSTRS, can  
14 elect to remain in CalPERS, regardless whether there is a  
15 break in service between their CalPERS covered employment  
16 and subsequent CalSTRS covered employment.

17 And similarly, under specified conditions,  
18 CalSTRS members may elect to retain CalSTRS membership  
19 when appointed to a position subject to mandatory CalPERS  
20 participation, and are allowed a break in service between  
21 CalPERS and CalSTRS covered positions.

22 However, a CalPERS member with less than 5 years  
23 of service credit is not allowed to elect to remain in  
24 CalPERS if the member has any break in service between  
25 their CalPERS covered and subsequent CalSTRS covered

1 employment, no matter how nominal the break is.

2           For example, a non-vested CalPERS member may end  
3 their CalPERS employment on a Friday and immediately start  
4 subsequent employment in a CalSTRS covered position on  
5 that subsequent Monday, they would not be able to elect to  
6 remain in CalPERS as the weekend would be considered a  
7 break in service.

8           Therefore, the CalPERS program area recommends,  
9 and is seeking Committee approval, to pursue legislation  
10 to amend current law to provide that non-vested CalPERS  
11 members may have a break in service of up to 120 days  
12 between their CalPERS covered employment and CalSTRS  
13 covered employment to be eligible to remain in CalPERS, as  
14 long as the member meets all other eligible -- eligibility  
15 requirements in current law.

16           Making these changes would provide greater equity  
17 and conformity between CalPERS and CalSTRS administration  
18 of these elections. It would reduce confusion and  
19 potentially reduce the CalPERS resources needed to address  
20 invalid elections and respond to related administrative  
21 appeals. We have reviewed this proposal with the  
22 Committee consultants and stakeholders and have not  
23 received any concerns or opposition.

24           And with that --

25           CHAIRPERSON MATHUR: Thank you.

1           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

2           -- Mr. Suine and I would be happy to answer  
3 questions. Thank you.

4           CHAIRPERSON MATHUR: Any discussions on the  
5 policy proposal?

6           Mr. Juarez.

7           ACTING COMMITTEE MEMBER JUAREZ: I'm going to  
8 again assume that CalSTRS is okay with us pursuing that  
9 change?

10          LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

11          ACTING COMMITTEE MEMBER JUAREZ: And that -- I  
12 mean, I'll just ask it as a question. Do we perceive  
13 anybody would have a problem with extending it to 160 --  
14 180 days?

15          LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: We  
16 still need to touch base with the Department of Finance.  
17 We have provided them the information, but they're  
18 currently busy on budget issues, so we hope to meet with  
19 them sometime next month.

20          ACTING COMMITTEE MEMBER JUAREZ: Thank you.

21          CHAIRPERSON MATHUR: Thank you.

22          Ms. Taylor, can I -- is this included in your  
23 motion?

24          COMMITTEE MEMBER TAYLOR: I will amend my motion  
25 to include this.

1 (Laughter.)

2 CHAIRPERSON MATHUR: And Mr. Jones, this is  
3 acceptable to you as the seconder?

4 COMMITTEE MEMBER JONES: Yes.

5 CHAIRPERSON MATHUR: Okay. Any discussion on the  
6 motion?

7 Seeing none.

8 All those in favor say aye?

9 (Ayes.)

10 CHAIRPERSON MATHUR: All those opposed?

11 Motion passes.

12 Thank you very much.

13 I'm sorry. Oh, sorry, Ralph. Yes.

14 ACTING COMMITTEE MEMBER COBB: Please record  
15 CalHR as abstaining on this.

16 CHAIRPERSON MATHUR: We will do so.

17 Okay. Moving on to Agenda Item number 6, Annual  
18 Review of Legislative Policy Engagement Guidelines.

19 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,  
20 members of the Committee, at the risk of continuing to  
21 talk today, I want to cover this particular item based  
22 upon the conversation that took place yesterday at the  
23 Investment Committee on this exact same item, and just  
24 assure the Committee that, based on the discussions that  
25 took place yesterday in the Investment Committee, we'll be

1 working, not only with you all, but internally, and use  
2 the January off-site to allow you all to have the  
3 interaction with the federal representatives to clearly  
4 then make sure that we bring this back in February as a  
5 total package both for Investment, Pension and Health with  
6 all of the guidance that we gather at the January off-site.

7 So I don't know if there's an additional need to  
8 go through this today, but I just wanted to raise  
9 confirmation that we'll handle it the same way as was  
10 spoken about yesterday.

11 CHAIRPERSON MATHUR: Thank you. So we do have  
12 one request to speak. Mr. Jelincic.

13 BOARD MEMBER JELINCIC: I just want to make sure  
14 that the issue of using representative is also intended to  
15 incorporate staff?

16 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah. I  
17 recall that bringing -- being brought up yesterday as  
18 well, so that's included. Thank you.

19 BOARD MEMBER JELINCIC: Thank you.

20 CHAIRPERSON MATHUR: Thank you.

21 Okay. Then we'll defer this discussion to the  
22 January off-site.

23 We'll move on to Agenda Item number 7, Customer  
24 Services and Support Performance Updates.

25 Ms. Lum.

1           DEPUTY EXECUTIVE OFFICER LUM: Good morning,  
2 Madam Chair, members of the Committee. Donna Lum, CalPERS  
3 team member. With me today, as you know, is Anthony  
4 Suine, CalPERS team member as well.

5           Agenda Item number 7 is an information item. And  
6 it's to provide you with our quarterly update on  
7 performance as it's related to customer service.  
8 Specifically in this item we'll be addressing our service  
9 measures that are related to Strategic Measure number 10,  
10 which is -- which measures the timeliness of our benefit  
11 payments, as well as Strategic Measure number 11, which  
12 measures customer satisfaction, both member and employer.

13           Overall, I'm pleased to say that the customer  
14 service team's continue to provide many of our services  
15 within our established service levels, and we continue to  
16 also receive a high degree of feedback from both members  
17 and employers with customer satisfaction.

18           However, during this past quarter, we did have a  
19 couple of service areas that fell below the threshold,  
20 which we established with this Committee, that enables us  
21 to discuss them with you from an exception perspective.  
22 And so we're prepared to do that today.

23           And I also wanted to note that in the agenda  
24 item, we've identified several initiatives that we are  
25 undertaking, that again are all aimed at streamlining and

1 improving the services that we currently provide.  
2 Although, they are being performed at a high level, as you  
3 know, we're always looking for continuous improvement and  
4 looking at how we can continue to enhance those services.

5 So, at this time, I'd like to turn it over to  
6 Anthony Suine, and he will walk you through our exception  
7 reporting, and tell you about some of the initiatives  
8 we're undertaking.

9 BENEFIT SERVICES DIVISION CHIEF SUINE: Thanks,  
10 Donna.

11 I get another chance here. Good morning, Madam  
12 Chair, members of the Committee. I'm Anthony Suine,  
13 CalPERS team member. And, Agenda Item 7 is an information  
14 item. That's our routine quarterly performance report in  
15 the Customer Services and Support Branch. And as Donna  
16 mentioned, I first want to cover our performance on our 2  
17 strategic measures, which are benefit payments and  
18 customer satisfaction surveys.

19 Overall, we continue to make our customer -- our  
20 benefit payments in a extremely timely manner, within our  
21 identified thresholds, with the exception of one area that  
22 I wanted to point out. As I've shared previously, we make  
23 2 types of survivor benefit payments. We make those that  
24 have an ongoing monthly allowance, that is typically due  
25 to a surviving spouse. And then we make lump sum survivor



1 benefit payments that are typically payable to another  
2 relative, or a friend, or an estate potentially.

3 As we faced a large increase in the number of  
4 deaths that have been reported to us over the last 3  
5 years, our team has had to prioritize those payments. And  
6 we always put those ongoing monthly payments due to a  
7 surviving spouse as our top priority. This keeps their  
8 income stream on a month-to-month basis, as well as keeps  
9 a continuation of their health benefits.

10 So as a result of that, our performance in paying  
11 the lump sum death benefits has dipped below 50 percent in  
12 this last quarter. And it's extremely important to us  
13 that we make these payments timely. And I am happy to say  
14 that within 60 days we're making 80 percent of those  
15 payments within 60 days. So our goal was 45, while we're  
16 missing that, less than 50 percent of the time we are  
17 making 80 percent of them within 60 days, and then over 90  
18 percent of them within 75 days. So we're able to regroup  
19 fairly quickly after the 45 days.

20 To mitigate this effort, we have also recently  
21 been approved for new positions in this area. So we have  
22 hired those staff to assist us, and we're also working on  
23 enhancements to our automated process, as well as  
24 streamlining our business process, so the future will look  
25 brighter in resolving these cases more timely.

1           And we believe in the next 6 months, as our team  
2 members are fully trained, we'll be able to perform much  
3 better in this area. In the area of customer  
4 satisfaction, we have an overall rating of above 90  
5 percent when we look at all the 15 different surveys that  
6 we administer. The 4 business areas where we've fallen  
7 below our threshold of 85 percent are identified in the  
8 agenda item.

9           Two of those areas are refunds and payroll  
10 reporting for our employers. We have -- we are -- we are  
11 still in the 80th percentile for both those surveys, just  
12 slightly below the 85 percent. I did want to point out on  
13 the payroll reporting, when we do get these surveys, we  
14 receive comments periodically from the employers or the  
15 members.

16           And in the payroll reporting area, we've been  
17 able to look at the feedback provided by our employers and  
18 we have been working to implement some of the changes  
19 around the reports that they have access to. And that's  
20 made a big difference in our scores in that area. So we  
21 continue to see a upward trend in that satisfaction.

22           In the area of service credit purchases, we've  
23 fallen slightly below 80 percent for our overall  
24 satisfaction. It really boils down to the members on the  
25 timeliness we can deliver those costs to them for their

1 service credit purchases.

2 We have recently made improvements in our  
3 methodology of how we work the inventory. And over the  
4 last quarter, we've been able to see over a 10 percent  
5 decrease in our total inventory of service credit  
6 requests. This will give us more time for the team  
7 members to work more cases in a shorter amount of time, so  
8 we expect our timeliness in that area to improve and see  
9 those results in our satisfaction surveys.

10 Lastly, we have our IRC 415 Benefit Plan. This  
11 is a program that very few employee -- of our retirees are  
12 part of, so that -- and this goes to new people who enter  
13 the program. So we get very few respondents for this  
14 survey. So as a result, our percentage is below our  
15 satisfaction threshold of 85 percent.

16 Their main comments in this area is this is a  
17 separate benefit payment from their normal PERF, or Public  
18 Employees Retirement Fund, check, and they would really  
19 like to have direct deposit for these funds. Since it's a  
20 separate manual claim we send to the State Controller's,  
21 they get a paper check for this payment. And it's only  
22 payable when the employers have made their payments  
23 timely. So sometimes they get frustrated over the  
24 timeliness of the payments.

25 We are working towards direct deposit for these

1 payments, and we hope to have that implemented some time  
2 in 2017.

3 Other highlights over the last quarter for  
4 Customer Services an Support includes our handling of open  
5 enrollment inquiries. This last quarter saw the beginning  
6 of open enrollment. And the move to the on-line health  
7 statements has translated into more electronic secure  
8 message inquiries from our members, and a reduced number  
9 of phone calls.

10 So as a result, it's helped us to be able to  
11 respond to those electronic inquiries more timely, as well  
12 as maintain our call wait times, and handle our calls more  
13 efficiently. So that really resulted in a positive gain  
14 for the team.

15 In addition, we are compiling the statistical  
16 data as a result of open enrollment, and that will be  
17 available to the Committee in February of 2017, all the  
18 data of the movements.

19 We also continue to use the functional  
20 optimization project within CSS to make enhancements for  
21 our members, for our employers, and for our internal teams  
22 processing.

23 The last quarter saw improvements to the on-line  
24 health statements. It allowed us to deploy the on-line  
25 health statements. It also has assisted our members in

1 reconciling their enrollment data and appointment data  
2 that has had issues in the past, and we made it easier for  
3 them to resolve those issues. And we've made some  
4 improvements to help streamline our retirement application  
5 processing.

6           Lastly, I'd like to point out some initiatives  
7 that we have been working on to reduce the complexity in  
8 our area, as well as improve compliance with our  
9 employers. Now, that the Retirement Option Simplification  
10 bill has passed, we are putting together the necessary  
11 project plan to implement the necessary communication  
12 needs, the system changes that need to be in place prior  
13 to January of 2018 when this takes effect, and enhance our  
14 training materials for our internal team members as well  
15 as our members.

16           We're also making a significant effort to  
17 simplify our member publications wherever possible. So  
18 we're looking at those publications, streamlining them,  
19 working with our Public Affairs Office to make sure that  
20 they're easy to understand and the process can easily be  
21 completed by our members.

22           And lastly, in the Business Partner Compliance  
23 area, we've really had that theme over the last quarter.  
24 And through our circular letters with our employers,  
25 through face-to-face visits, and last month at the

1 Employer Education Forum, we've really been working with  
2 our employers to stress any issues with gaps they have in  
3 our laws, and how to resolve those gaps. And so we've  
4 been working closely in that area to help them avert any  
5 of those issues.

6 So with that, that concludes my report, and I'm  
7 happy to take any questions.

8 CHAIRPERSON MATHUR: Thank you very much. Very  
9 comprehensive report.

10 Mr. Bilbrey.

11 VICE CHAIRPERSON BILBREY: Thank you, Madam  
12 Chair. Yes. Thank you for the comprehensive report. I  
13 just wanted to mention, not necessarily on the report, but  
14 in October, I had the pleasure of visiting 3 more of our  
15 regional offices. And staff there were fantastic in  
16 greeting me and really filling me on how the operations of  
17 each of our regional offices work.

18 I really appreciate their time and their efforts.  
19 And actually, I've now visited all the offices, so it's  
20 just a fantastic -- our staff is just fantastic in all the  
21 work they do.

22 I had the pleasure of joining the Glendale office  
23 as well at one of their fund-raising events they did for  
24 pediatric brain tumor. And we did a big walk together.  
25 And I really enjoyed joining them, so -- and I look

1 forward to, in March, we're going to do a Komen, I think,  
2 event as well.

3 So thank you and I thank the staff for all the  
4 work they're doing.

5 CHAIRPERSON MATHUR: Thank you, Mr. Bilbrey.  
6 Mr. Jelincic.

7 BOARD MEMBER JELINCIC: As we look at simplifying  
8 the system, why do we do the IRC 415? You know, we didn't  
9 create it. The employer created it. Why not -- we can't  
10 pay it until the employer gives us the money. Why not  
11 step out of the middle of this?

12 BENEFIT SERVICES DIVISION CHIEF SUINE: So the  
13 regulations in our -- the California Code of Regulations  
14 and our retirement law governs that CalPERS administers  
15 this program on behalf of our members. There is a  
16 provision in there where we could rescind that  
17 administration. However, there's 2 parts of this. One is  
18 limiting the member for their benefit per the IRC 415  
19 rules, and then the other is collecting from the employer,  
20 and then paying that excess benefit to them.

21 There's still a lot of effort. Even if we were  
22 to eliminate our administration of the program, there's  
23 still a lot of effort into figuring out how the member  
24 should be limited. There's a lot of complex rules in the  
25 IRC 415. That is still a lot of work. And then we would

1 have to notify the employers and the members that they  
2 have been limited and here's the amount under -- or that  
3 exceeds the limit, and then expect potentially the  
4 employer to work with the members.

5 So there's still quite -- eliminating the program  
6 altogether or our administration of it wouldn't  
7 necessarily simplify it as much as we would like.

8 BOARD MEMBER JELINCIC: So even if we stepped out  
9 of administration, we'd have to do the calculations?

10 BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

11 BOARD MEMBER JELINCIC: Okay. And then on this  
12 service purchase credit, which is top of page 3, I  
13 understand that we want to reduce the backlog and increase  
14 processing times. Don't we want to decrease processing  
15 times?

16 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. I  
17 was reading how that was worded in the agenda item, and  
18 it -- increase our speed of processing the requests, if  
19 that makes sense.

20 BOARD MEMBER JELINCIC: Okay.

21 CHAIRPERSON MATHUR: Improve processing times.

22 BOARD MEMBER JELINCIC: Right.

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah,  
24 yeah. We want to do them faster, increase our speed.

25 BOARD MEMBER JELINCIC: Because when I read it, I



1 kind of was like -- okay. Thank you.

2 CHAIRPERSON MATHUR: Mr. Cobb.

3 ACTING COMMITTEE MEMBER COBB: Thank you, Madam  
4 Chair. I just wanted to offer my kudos to you and your  
5 team for the close collaboration and coordination during  
6 open enrollment with our retiree dental and vision open  
7 enrollment running in parallel. So thank you very much.

8 BENEFIT SERVICES DIVISION CHIEF SUINE: Thank  
9 you.

10 ACTING COMMITTEE MEMBER COBB: And please pass  
11 that on to your team.

12 CHAIRPERSON MATHUR: Thank you.

13 I see no further requests to speak, so we will  
14 move on to Agenda Item number 8, Pharmacy Benefit Manager  
15 Transition.

16 Mic.

17 HEALTH PLAN ADMINISTRATION DIVISION CHIEF  
18 DONNESON: Good morning, Madam Chair, and members of the  
19 Committee. Kathy Donneson, CalPERS staff.

20 Agenda Item number 8 provides an update on the  
21 pharmacy benefit manager transition for nearly 500,000  
22 CalPERS members. We are pleased with the progress and  
23 look forward to a successful completion date and launch of  
24 January 1, 2017.

25 We are -- look forward to that date, so that we

1 can move forward implementing the pharmacy innovations  
2 that are part of this 5-year contract.

3 I would now like to introduce Victor Eberle,  
4 who's to my left, the Assistant Division Chief, and also  
5 the project director who managed this implementation, and  
6 she will present the rest of this agenda item.

7 Victoria.

8 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT  
9 CHIEF EBERLE: Thank you, Kathy. Good morning, Madam  
10 Chair, Committee members. This agenda item provides an  
11 update on the implementation of the pharmacy benefit  
12 manager OptumRx. The implementation activities are well  
13 underway as we approach the January 1, 2017 go-live date.

14 Since May, CalPERS, OptumRx, and the health  
15 carriers collectively have more than 100 staff dedicated  
16 for implementation activities. We are utilizing a  
17 workstream group approach. This approach is  
18 cross-divisional and multi-disciplinary to allow for  
19 concurrent activities reaching across the enterprise and  
20 the State Controller's office to ensure that all business  
21 needs are met in a timely manner.

22 The activities of the 7 workstream groups are  
23 outlined in attachment 1. In brief, I will highlight 3  
24 work groups: Plan design and drug coverage;  
25 communications, reports, tools, and training; eligibility

1 Medicare, ANSI interfaces.

2 First, I would like to discuss the plan design  
3 and drug coverage workstream group on page 4 of attachment  
4 1. This workstream group primary responsibility was to  
5 develop processes and protocols to mitigate member  
6 disruption a prescription fills at the pharmacy and to  
7 ensure that members have continuous access to existing  
8 medications.

9 Disruptions are defined as any changes in drug  
10 coverage that might be perceived as negative. Of most  
11 concern to the workstream group was a difference in the  
12 CVS and OptumRx formularies that could either result in a  
13 certain drug having a higher copayment or some drugs  
14 requiring step therapy, quantity limits, or prior  
15 authorization.

16 To prepare our membership for any potential  
17 changes, we launched a drug look up and drug cost tool on  
18 the OptumRx website for CalPERS. OptumRx also sent 75,263  
19 letters to members informing them of potential disruptions  
20 and what steps they might take to minimize disruptions.

21 OptumRx made phone calls to members who received  
22 multiple letters and to some who are taking specialty  
23 medication -- that require special handling. A second  
24 round of membership letters will be sent in early January  
25 to inform new enrollments of potential disruption.

1           Next, I would like to discuss on page 5 of  
2 attachment 1, which outlines communications, reports,  
3 tools, and training work, which included multiple  
4 opportunities to engage with stakeholders, to communicate  
5 prior and during open enrollment.

6           A brief delay in implementing the pharmacy search  
7 function on the OptumRx website resulted in 3 complaints  
8 to CalPERS about not being able to find a network  
9 pharmacy. That search function has been corrected and  
10 members can use it.

11           There have been 3 complaints received by CalPERS  
12 over the preparedness of OptumRx call center employees,  
13 which has been addressed by increased training and  
14 development of these staff to be ready for go-live. To  
15 date, there have been approximately 60 calls and complaint  
16 letters regarding the switch from CVS to OptumRx.

17           Finally, I would like to discuss page 8 of  
18 attachment 1, eligibility, Medicare, ANSI interfaces.  
19 During the implementation, we have encountered some  
20 challenges regarding low-income subsidy. I will take a  
21 moment to walk through the low-income subsidy program.

22           The Centers for Medicare and Medicaid provide  
23 subsidies to offset the premium paid for prescription drug  
24 coverage for Medicare Part D beneficiaries who meet  
25 specific income requirements

1           The pharmacy benefit manager receives the  
2 subsidies from CMS on a monthly basis and is responsible  
3 for administering the low-income subsidy program. CalPERS  
4 works with the PBM, through the my|CalPERS system  
5 interfaces, to verify member enrollment and premium  
6 amounts paid by either the employee or the employer.

7           The PBM must then reimburse the member and/or  
8 employer for the subsidy amounts. The employer gets some  
9 or all of the subsidy, depending on how much the employee  
10 contributed to their monthly health premium. CMS provides  
11 subsidy money for the program, and there are approximately  
12 2,000 CalPERS members in the program, and the average  
13 monthly subsidy is about \$30. This workstream group has  
14 been engaged with OptumRx in rigorous testing to ensure a  
15 smooth transition for these members.

16           An inordinate amount of planning and preparation  
17 has gone to ensure a smooth transition for successful  
18 go-live on January 1, 2017.

19           In closing, I'm very proud of the work done by  
20 the entire implementation team who have been performing  
21 above and beyond during this compressed schedule.

22           That concludes my presentation, and I'm happy to  
23 answer any questions.

24           Thank you.

25           CHAIRPERSON MATHUR: Thank you, Ms. Eberle.

1 Ms. Taylor.

2 COMMITTEE MEMBER TAYLOR: Yeah. You just --  
3 thank you very much for the report. It's really  
4 comprehensive, as I'm going through it for a third time.  
5 I'm still a little confused. You said under the Medicare  
6 eligibility, the employer gets the subsidy. Could you  
7 explain that to me again? I didn't quite get that.

8 HEALTH PLAN ADMINISTRATION DIVISION CHIEF  
9 DONNISON: Thank you, Ms. Taylor.

10 Under the subsidy program, the subsidy to the  
11 employer or the employee is really dependent on the  
12 employer's contribution. So as Ms. Eberle said, the  
13 average is about \$30. If we're the State of California  
14 for example, most of that \$30 will come to the State  
15 because of the amount of money that the State contributes  
16 to the premium.

17 COMMITTEE MEMBER TAYLOR: Okay. So it has to do  
18 with how much is contributed --

19 HEALTH PLAN ADMINISTRATION DIVISION CHIEF  
20 DONNISON: Correct.

21 COMMITTEE MEMBER TAYLOR: -- to the premium, and  
22 then the subsidy is kind of a savings for the State of  
23 California.

24 HEALTH PLAN ADMINISTRATION DIVISION CHIEF  
25 DONNISON: Yes.

1 COMMITTEE MEMBER TAYLOR: Is that correct?

2 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

3 DONNISON: Correct.

4 COMMITTEE MEMBER TAYLOR: Okay. And then I had  
5 another question and I don't remember what page it was on.  
6 I was -- oh, it was at the beginning. The transparency of  
7 OptumRx. One of my questions was do we know what -- for  
8 example, I go in and I purchase my whatever I need, right,  
9 and I pay my 5 bucks, but it actually costs nothing,  
10 right?

11 So then OptumRx gets that money. And I know -- I  
12 know this is something that goes on in terms of pharmacy  
13 benefits for -- so I'm wondering does OptumRx keep the  
14 savings? So for certain drugs you get, you know, kick --  
15 not kickbacks, but savings -- cost savings to the pharmacy  
16 that handles it. And it's not always the same pharmacy,  
17 but it -- I'm wondering does that money come back to  
18 CalPERS in any way or does it stay with OptumRx?

19 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

20 DONNISON: The pharmacy benefit manager is the third-party  
21 administrator. So any money, for example, rebates has 100  
22 percent pass-through back to CalPERS. So what we're  
23 paying for with Optum is that third-party administrator  
24 fee primarily, and all benefits and expenses then accrue  
25 to CalPERS.

1 COMMITTEE MEMBER TAYLOR: Okay. So that we're  
2 the fee, but if there is any rebates from whatever, you  
3 know, my statin that I take or something, that rebate then  
4 gets passed through at the end of the year to CalPERS, the  
5 savings?

6 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

7 DONNISON: It comes back to CalPERS, yes.

8 COMMITTEE MEMBER TAYLOR: Okay. And we do get a  
9 report on that?

10 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

11 DONNISON: Yes.

12 COMMITTEE MEMBER TAYLOR: Okay. Great. That's  
13 what I was checking on. Thank you.

14 CHAIRPERSON MATHUR: Okay. Thank you.

15 Mr. Lofaso.

16 ACTING COMMITTEE MEMBER LOFASO: Thank you, Madam  
17 Chair. Excellent report. Thank you very much.

18 During the negotiation process, there was some  
19 discussion about -- I'm speak -- I'm asking a question  
20 about the formulary issues and the difference between the  
21 old and the new. And there was some discussions about,  
22 I'm not sure the right word I should use, a little give on  
23 Optum's part about people who say we're on a prescription  
24 that didn't require prior authorization, but now would.

25 And I think the idea was they would bridge the



1 gap a little bit for people who were -- can you elaborate  
2 how that has played out as we're moving forward?

3 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT

4 CHIEF EBERLE: Optum has been working with our team, our  
5 clinical team, to minimize any disruptions. So those  
6 letters that went out, things have been adjusted so that  
7 members know where that drug lies on the new formulary.  
8 So adjustments have been made. In the negotiations, we  
9 did -- there were certain cross-over drugs that Optum was  
10 very generous on, so those things were minimized.

11 We've done everything that we can with OptumRx  
12 and we'll continue to do so, as things pop up, to minimize  
13 the gap as we move on.

14 ACTING COMMITTEE MEMBER LOFASO: So I'm hearing  
15 you say there's a number of them where there -- the  
16 beneficiary isn't even going to see anything but seamless  
17 coverage because of the things we did, and the --

18 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT

19 CHIEF EBERLE: Correct.

20 ACTING COMMITTEE MEMBER LOFASO: -- the other  
21 steps you're taking are the outliers where we weren't able  
22 to do as much in seamlessness?

23 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT

24 CHIEF EBERLE: Yes.

25 ACTING COMMITTEE MEMBER LOFASO: Thank you very

1 much.

2 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT

3 CHIEF EBERLE: Thank you.

4 CHAIRPERSON MATHUR: Thank you.

5 Mr. Jelincic.

6 BOARD MEMBER JELINCIC: Yeah, I was -- in the  
7 write-up, I was a little surprised that, you know, "The  
8 introduction of the new PBM has resulted in a number of  
9 member calls and complaint letters regarding the switch",  
10 which hasn't happened yet. What's the nature of those  
11 complaints and what do you think happens in January when  
12 we actually do make the switch?

13 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT

14 CHIEF EBERLE: When the announcement was made who the  
15 contract was awarded to, we made extreme efforts to  
16 communicate that to employers and employees of the change,  
17 so they knew of the activities that would start and all  
18 the letters that were starting to flow through. I think  
19 some of those letters, I think you're always going to have  
20 people that prefer one PBM to another. And from what we  
21 can see in January, we hope to see very minimal disruption  
22 in January from the call volume we're seeing now at the  
23 OptumRx call center, which has been in the neighborhood of  
24 about the 200 calls thus far.

25 BOARD MEMBER JELINCIC: Okay. And I --

1           DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jelincic,  
2 if I may? There's -- at least the letters that I've seen  
3 that I've responded to personally, on behalf of the  
4 organization, have primarily dealt around the formulary  
5 change, which Ms. Eberle has already discussed of how that  
6 has been transitioned. That would be the major area in  
7 which members have expressed some concerns.

8           I also want to point out that the -- even though  
9 the numbers may appear high, I will suggest to you that  
10 it's still much, much lower than the customer service  
11 calls that we've gotten under our current PBM, which has  
12 generated much more customer service dissatisfaction than  
13 what we expect moving forward.

14           BOARD MEMBER JELINCIC: Thank you.

15           CHAIRPERSON MATHUR: Thank you.

16           Mr. Juarez.

17           ACTING COMMITTEE MEMBER JUAREZ: Yes. Thank you.  
18 I wanted to query a little bit about this value-based  
19 contracting, which is an add-on apparently that Optum's  
20 providing to CalPERS to do for innovative programs. And  
21 most curious about whether or not the staff can -- as that  
22 develops, the staff can share with the Board exactly some  
23 examples of where we've been able to lower the cost, at  
24 the same time we're increasing the use of prescription  
25 drugs that are actually making a difference.

1           And so I think we'd be very much interested to  
2 hear examples of where that's been done and what the value  
3 has been to the organization by doing that type of  
4 value-based contracting.

5           HEALTH PLAN ADMINISTRATION DIVISION CHIEF

6       DONNISON: I'd like to direct the Committee to page 2 of  
7 3, which describes some of the innovations in the actual  
8 written agenda item. One of the benefits of the  
9 competitive negotiations that we engaged in was that we  
10 were able to flesh out, not only full -- a full  
11 transparent contract, but also the innovations that  
12 OptumRx would be bringing to CalPERS.

13           And in that paragraph which is in the middle of  
14 the page on page 2, the value-based contracting is a new  
15 concept, and it relates to the opportunity to work  
16 directly through Optum with the manufacturers in terms of  
17 additional value that could be brought to CalPERS through  
18 this contract.

19           We also will be working -- other innovations  
20 we'll be doing is sites-of-care management that relate to  
21 expensive drug administration, in terms of infusions,  
22 office-administered drugs, that might be able to be  
23 reduced on the medical side, because they have  
24 been -- they will flow through to the pharmacy side.

25           Some of the other things that we have worked with

1 and look forward to continuing to work is implementation  
2 of evidence-based formulary control, including our ability  
3 to not participate as a member of the Pharmacy and  
4 Therapeutics Committee, but to actually observe the work  
5 of the Pharmacy and Therapeutics Committee.

6 So these are some of the innovations that we  
7 haven't had the opportunity to flesh out, but come January  
8 1, I'm very much looking forward to a comprehensive  
9 strategy, not just for the PBM side of the pharmacy, but  
10 the medical pharmacy as well.

11 DEPUTY EXECUTIVE OFFICER McKEEVER: And if I may  
12 add one note on top of Kathy's comments. Yes, we will  
13 bring back to the Committee our efforts rolling these out  
14 and then the results of those efforts as well.

15 ACTING COMMITTEE MEMBER JUAREZ: Yeah, I think  
16 the financial benefit, I think, will be interesting to see  
17 how much we're able to accrue from the changes that have  
18 been described in the item.

19 CHAIRPERSON MATHUR: Thank you. I just had one  
20 question, and that's on the drug look up and cost tool,  
21 and that is whether that includes both synthetic and  
22 specialty drugs?

23 HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT  
24 CHIEF EBERLE: I'm sorry. Yes.

25 CHAIRPERSON MATHUR: Yes, it does. Okay. Great.

1           Thank you. I think that exhausts the questions  
2 of the Committee. So thank you very much for the item.

3           That will bring us to Agenda Item number 9, which  
4 is a Summary of Committee Direction.

5           DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,  
6 I believe there was only one that was supporting the  
7 deferral of the legislative and policy guidelines until  
8 the January off-site, and then bringing back in February  
9 the recommended path forward for your consideration.

10          CHAIRPERSON MATHUR: Yes, that sounds like what I  
11 recollect as well.

12          We do have 3 members of the public who wish to  
13 speak at public -- in Agenda Item 10, Public Comment. So  
14 Dwight Sanders, David Bilby, and Tim Behrens, if you could  
15 make your way up to the front here. We're got 2 seats  
16 here on the left.

17          Please identify yourself. These -- either one of  
18 those is fine, Tim.

19          Please identify yourself and your affiliation for  
20 the record, and you'll have 3 minutes.

21          Go ahead.

22          MR. BEHRENS: Thank you, Madam Chair, Board  
23 members. My name is Tim Behrens. I'm the President of  
24 the California State Retirees. Thank you for this  
25 opportunity to comment. I'd like to draw the Committee's

1 attention to an issue of concern on which CSR has had  
2 communication with CalPERS staff regarding the cost,  
3 accounting, and reporting of pharmaceutical drugs to  
4 CalPERS.

5           We have closely followed CalPERS' costs reporting  
6 for drugs over the last few years, and have discovered a  
7 reporting inconsistency which we feel needs to be  
8 addressed. In the December 15th, 2015 Agenda Item 9 of  
9 the HBC meeting, the staff reported to the Committee that  
10 the total cost of prescription drugs to CalPERS for the  
11 year 2014 was \$1.8 billion. This figure was also shared  
12 with stakeholders at stakeholders' engagement briefings,  
13 and on other occasions.

14           So it came as a surprise when staff reported the  
15 drug costs for the calendar year 2015 at a September 20th,  
16 2016 HBC meeting that the total 2015 cost for prescription  
17 drugs was \$2.1 billion, which represented nearly a 10  
18 percent increase over the cost of 1.9 billion for the year  
19 2014.

20           For nearly a year, CalPERS has cited the 2014  
21 drug cost to be 1.8 billion, but now has 1.9 billion with  
22 no explanation of how they had increased \$0.1 billion, or  
23 any acknowledgement of an increase. Shortly after that  
24 meeting, CSR contacted CalPERS staff asking for an  
25 explanation.

1           The prompt response indicated that pharmacy costs  
2 can vary somewhat from one report to the next due to  
3 factors such as an updated claims data, rounding  
4 differences, and retrospective correction of errors.

5           Now, we understand that adjustments from report  
6 to report are common. However, 2014 costs were not  
7 reported until December 2015. A year seems like a  
8 reasonable amount of time to have made adjustments. But  
9 of greater concern is the magnitude of the apparent  
10 adjustment 0.1 billion, or in our thinking, 100 million is  
11 of great concern.

12           On closer examination, we found in graphs  
13 accompanying the 2015 agenda item memo, \$1.86 billion is  
14 shown for 2014, which was rounded down to \$1.8 billion or  
15 60 million to cover the memo.

16           And in 2016, a report on a graph shows 2015 costs  
17 at \$1.91 billion, but it was rounded down \$10 million to  
18 1.9 billion in the cover memo.

19           Rounding up or down millions of dollars in  
20 reports to the Board and the stakeholders may be a little  
21 bit misleading. The report summary leads us to conclude  
22 there is \$100 million discrepancy. We hope that the 2  
23 differences between the reports is much smaller, but we  
24 feel addition explanation is needed.

25           So we have 2 recommendations we'd like to make to



1 this committee and CalPERS staff, that CalPERS staff do  
2 additional analysis to explain the drug cost reporting  
3 differences; and 2, that CalPERS report these costs in  
4 millions rather than billions now and in future reports.

5 Thank you for the time to speak. And also, thank  
6 you for that great breakfast this morning put on by  
7 CalPERS and the time to meet with you all and CalPERS  
8 staff.

9 Have a good day.

10 CHAIRPERSON MATHUR: Thank you, Mr. Behrens.

11 Mr. -- I'm sorry, Mr. Bilby?

12 MR. BILBY: Correct.

13 CHAIRPERSON MATHUR: Please identify yourself and  
14 your affiliation for the record.

15 MR. BILBY: Good morning. My name is David  
16 Bilby. I'm the director of finance and treasurer for the  
17 City of Chula Vista.

18 I first off wanted to congratulate the CalPERS  
19 team on a very successful 2016 Educational Forum. It was  
20 my first time attending, and I found it to be very  
21 engaging and organized and provided a lot of information,  
22 especially for a first-time attendee. So thank you very  
23 much for that.

24 It was at that Educational Forum that I had the  
25 privilege of being joined at breakfast by Mr. Bilbrey,

1 Mrs. Mathur, Mrs. Frosts, and Mr. Costigan. And it was  
2 there that the conversations we were having at breakfast  
3 that encouraged me to come today.

4 I wanted to discuss some of the areas of the  
5 CalPERS system that local governments see as being  
6 probably the most important issue that we've got to deal  
7 with in the coming years, which is the discount rate or  
8 the investment returns.

9 We're looking at our current percentage  
10 contributed per employee going from 30 percent to over 50  
11 percent in the next 10 years. We're looking to try to  
12 create a sustainable and realistic balanced budget  
13 approach for the foreseeable future in our long-term  
14 financial plan. And I would encourage CalPERS to consider  
15 at future Educational Forums to add course work on  
16 seminars and sessions regarding discount rate  
17 sustainability.

18 I think there's a lot of misconceptions written  
19 in periodicals and public media about how those risks are  
20 handled, how the investment portfolio is developed, and I  
21 think you guys have done a great job at addressing those  
22 and countering those public opinions.

23 But in addition to what was presented at the  
24 Educational Forum and what is also presented in public  
25 media, I think it is important to use and utilize all data

1 that we do have today to make a more informed and  
2 transparent decision going forward, so local governments  
3 can manage their future budgets effectively.

4 We don't have time today to get into all the  
5 specific issues, but if you look at global debt ratios, if  
6 you look at emerging market growth rates, you look at fed  
7 policy and central bank policy, you look at the  
8 sustainability of those programs, and what you and I do,  
9 and we have a fiscal shortfall or we have debt to pay  
10 down, is our spending comes down.

11 So whether it's a Greek default or just decreased  
12 growth rates going forward, CalPERS did a lot of effort in  
13 those sessions to talk and discuss about past performance.  
14 And it is clear that past performance would justify a 7½  
15 percent discount rate. But future performance is not  
16 based on past performance, as you -- when you sit down  
17 with a financial advisor, they tell you that about mutual  
18 fund growth rates.

19 I think it's important to look and analyze all of  
20 that data that's available, and really have open and  
21 transparent discussions about where the discount rate is  
22 sustainable. I attended the session about risk, and I  
23 think there's an area of risk that we want to get towards  
24 or a reasonable rate of risk target for that.

25 And so I just wanted to open up, you know, create

1 a collaborative environment where local governments have  
2 an opportunity to share with you some of our opinions.  
3 These are not the opinions of my elected officials. I'm  
4 trying to gather all the information I can to give them  
5 the best advice to move forward.

6 Really appreciate your time today. Thank you so  
7 much.

8 CHAIRPERSON MATHUR: Thank you very much, Mr.  
9 Bilby. The discount rate is on the agenda in the Finance  
10 Committee, which is coming up later this afternoon, so I  
11 invite you to stay and participate in the discussions  
12 then.

13 MR. BILBY: Will do. Thank you.

14 CHAIRPERSON MATHUR: Is Mr. Sanders in the room?  
15 Seeing none.

16 Those are all of the requests I have for public  
17 comment, so this open session is adjourned.

18 And we will have -- oh, I'm so sorry -- I'm  
19 sorry, Mr. Jones. I didn't see your name there. Sorry.

20 COMMITTEE MEMBER JONES: Okay. Thank you. My  
21 comment is dealing with Mr. Behrens comments about the  
22 dollar amount. And what it appears to be maybe is a  
23 rounding process, but I would ask that staff meet to make  
24 sure that they understand the numbers, so that this  
25 perception of erroneous numbers are not carried away.

1 CHAIRPERSON MATHUR: Thank you. I think staff  
2 has already been looking at this. So we'll see better --  
3 more precision in the future.

4 Thank you. So we are going to adjourn the open  
5 session of the Pension and Health Benefits Committee. We  
6 will commence the closed session at 10:15. And following  
7 that, we'll have a closed session for Performance,  
8 Compensation and Talent Management. And the open session  
9 for Performance, Compensation and Talent Management is  
10 scheduled to start at 11:30.

11 (Thereupon the California Public Employees'  
12 Retirement System, Board of Administration,  
13 Pension & Health Benefits Committee open  
14 session meeting adjourned at 10:02 a.m.)  
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## C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Pension & Health Benefits Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of November, 2016.



JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
License No. 10063